



**DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
YEAR ENDED JUNE 30, 2000**

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2001-43
May 29, 2001
www.auditor.state.mo.us**

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

May 2001

www.auditor.state.mo.us

The following problems were discovered as a result of an audit conducted by our office of the Department of Agriculture, State Milk Board.

State law requires the Department of Health, as the official rating agency for the State Milk Board, to make an official rating survey at least annually on all Grade A BTU's (Bulk Tank Unit – a group of dairy farms), plants, and receiving and transfer stations. As discussed in prior reports dating back to 1985, we noted that the rating surveys were conducted on an eighteen to twenty-four month schedule instead of annually as required by state law. These rating surveys provide evidence to the State Milk Board that there is appropriate and effective enforcement by the local health departments of the sanitation standards and other provisions governing the production, handling, and processing of Grade A milk. Because the rating surveys are not conducted in a timely manner, the State Milk Board should reconsider the extent of its reliance on the Department of Health rating surveys as a measure of its contractors' performance.

The Milk Inspection Fees Fund was established to receive fees collected from milk producers. The monies collected are used for inspection and compliance monitoring expenses, including payments to local health departments which contract with the State Milk Board to perform these services. It appears the fees collected from producers are not adequate to cover inspection and compliance monitoring costs. As a result, monies are appropriated and paid from the state's General Revenue Fund to help cover payments to health department contractors. Although payments to contractors represent the State Milk Board's most significant expenditure, useful actual cost data is not obtained from contractors. An analysis of budget and cost data from the contractors would help ensure payments to contractors are appropriate and reasonable.

Based on the State Milk Board's records of milk produced in fiscal year 2000, it appears the local health departments were paid more than the limit allowed by statute. This situation occurred when payments from both the Milk Inspection Fees Fund and the state's General Revenue Fund are considered.

Similar concerns were also noted in prior reports dating back to fiscal year 1995.

YELLOW SHEET

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD

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DEPARTMENT OF AGRICULTURE
STATE MILK BOARD

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FINANCIAL SECTION

State Auditor's Reports



CLAIRE C. McCASKILL
Missouri State Auditor

**INDEPENDENT AUDITOR'S REPORT ON
THE FINANCIAL STATEMENTS**

Honorable Bob Holden, Governor
and
Lowell Mohler, Director
Department of Agriculture
and
Terry S. Long, Executive Secretary
State Milk Board
Jefferson City, MO 65102

We have audited the accompanying special-purpose financial statements of the various funds of the State Milk Board as of and for the years ended June 30, 2000 and 1999, as identified in the table of contents. These special-purpose financial statements are the responsibility of the board's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose financial statements were prepared for the purpose of presenting the receipts, disbursements, and changes in cash and investments of the Milk Inspection Fees Fund; the receipts of the General Revenue Fund-State; and the appropriations and expenditures of the various funds of the State Milk Board and are not intended to be a complete presentation of the financial position and results of operations of the various funds of the board.

In our opinion, the special-purpose financial statements referred to in the first paragraph present fairly, in all material respects, the receipts, disbursements, and changes in cash and investments of the Milk Inspection Fees Fund; the receipts of the General Revenue Fund-State; and the appropriations and expenditures of the various funds of the State Milk Board as of and for the years ended June 30, 2000 and 1999, in conformity with the comprehensive bases of accounting discussed in Note 1, which are bases of accounting other than generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we also have issued our report dated February 2, 2001, on our consideration of the board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the special-purpose financial statements, taken as a whole, that are referred to in the first paragraph. The accompanying financial information listed as supplementary data in the table of contents is presented for purposes of additional analysis and is not a required part of the special-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the special-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the special-purpose financial statements taken as a whole.

The accompanying Statistical Section is presented for informational purposes. This information was obtained from the board's management and was not subjected to the auditing procedures applied in the audit of the special-purpose financial statements referred to above.



Claire McCaskill
State Auditor

February 2, 2001 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits: Kenneth W. Kuster, CPA
Audit Manager: Regina Pruitt, CPA
In-Charge Auditor: Robyn Lamb



CLAIRE C. McCASKILL
Missouri State Auditor

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Honorable Bob Holden, Governor
and
Lowell Mohler, Director
Department of Agriculture
and
Terry S. Long, Executive Secretary
State Milk Board
Jefferson City, MO 65102

We have audited the special-purpose financial statements of the State Milk Board as of and for the years ended June 30, 2000 and 1999, and have issued our report thereon dated February 2, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the special-purpose financial statements of the State Milk Board are free of material misstatement, we performed tests of the board's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance which are described in the accompanying Management Advisory Report.

Internal Control Over Financial Reporting

In planning and performing our audit of the special-purpose financial statements of the State Milk Board, we considered the board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the special-purpose financial

statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the special-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the management of the State Milk Board and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill
State Auditor

February 2, 2001 (fieldwork completion date)

Financial Statements

Exhibit A

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
COMPARATIVE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN
CASH AND INVESTMENTS - MILK INSPECTION FEES FUND

	Year Ended June 30,	
	2000	1999
RECEIPTS		
Milk inspection fees	\$ 1,530,803	1,427,041
DISBURSEMENTS		
Personal service	100,877	95,552
Employee fringe benefits	31,231	25,284
Expense and equipment	109,748	40,568
Inspection contract costs	1,224,431	1,194,009
Total Disbursements	1,466,287	1,355,413
RECEIPTS OVER (UNDER) DISBURSEMENTS	64,516	71,628
CASH AND INVESTMENTS, JULY 1	273,116	201,488
CASH AND INVESTMENTS, JUNE 30	\$ 337,632	273,116

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit B

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
COMPARATIVE STATEMENT OF RECEIPTS - GENERAL REVENUE FUND-STATE

	Year Ended June 30,	
	<u>2000</u>	<u>1999</u>
Other inspection fees	\$ <u>17,328</u>	<u>16,709</u>
Total	\$ <u><u>17,328</u></u>	<u><u>16,709</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit C

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,					
	2000			1999		
	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
GENERAL REVENUE FUND-STATE						
Payment of real property leases, related services, utilities and systems furniture and structural modifications for new FTE - Expense and Equipment	\$ 18,368	18,368	0	7,916	7,679	237
Personal Service and Expense and Equipment and for contractual services with local health agencies	220,693	213,399	7,294	250,000	242,266	7,734
Personal Service	129,089	112,763	16,326	94,606	88,516	6,090
Expense and Equipment	24,800	24,057	743	24,800	22,837	1,963
Total General Revenue Fund - State	392,950	368,587	24,363	377,322	361,298	16,024
MILK INSPECTION FEES FUND						
Personal Service	131,655	100,877	30,778	108,647	95,552	13,095
Expense and Equipment	232,529	109,405	123,124	38,065	32,525	5,540
Personal Service and Expense and Equipment and for contractual services with local health agencies	1,288,970	1,185,041	103,929	1,500,000	1,220,660	279,340
Payment of real property leases, related services, utilities and systems furniture and structural modifications for new FTE - Expense and Equipment	10,214	8,083	2,131	10,214	8,297	1,917
Total Milk Inspection Fees Fund	1,663,368	1,403,406	259,962	1,656,926	1,357,034	299,892
STATE CONTRACTED MANUFACTURING DAIRY PLANT INSPECTION AND GRADING FEE FUND						
Expense and Equipment	8,000	0	8,000	8,000	0	8,000
Total State Contracted Manufacturing Dairy Plant Inspection and Grading Fee Fund	8,000	0	8,000	8,000	0	8,000
Total All Funds	\$ 2,064,318	1,771,993	292,325	2,042,248	1,718,332	323,916

The accompanying Notes to the Financial Statements are an integral part of this statement.

Supplementary Data

Schedule

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
STATEMENT OF CHANGES IN GENERAL FIXED ASSETS

Type of General Fixed Assets	Balance July 1, 1998	Additions	Dispositions	Balance June 30, 1999	Additions	Dispositions	Balance June 30, 2000
GENERAL REVENUE FUND - STATE							
Office furniture and equipment	\$ 37,842	5,163	(1,795)	41,210	2,392	(13,812)	29,790
Automobiles	30,493	0	0	30,493	0	(16,493)	14,000
Total General Revenue Fund - State	<u>68,335</u>	<u>5,163</u>	<u>(1,795)</u>	<u>71,703</u>	<u>2,392</u>	<u>(30,305)</u>	<u>43,790</u>
MILK INSPECTION FEES FUND							
Office furniture and equipment	179,300	14,491	(2,469)	191,322	5,100	(3,818)	192,604
Automobiles	14,000	0	0	14,000	0	0	14,000
Total Milk Inspection Fees Fund	<u>193,300</u>	<u>14,491</u>	<u>(2,469)</u>	<u>205,322</u>	<u>5,100</u>	<u>(3,818)</u>	<u>206,604</u>
Total General Fixed Assets	\$ <u>261,635</u>	<u>19,654</u>	<u>(4,264)</u>	<u>277,025</u>	<u>7,492</u>	<u>(34,123)</u>	<u>250,394</u>

The accompanying Note to the Supplementary Data is an integral part of this statement.

Notes to the Financial Statements and Supplementary Data

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
NOTES TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Notes to the Financial Statements:

1. Summary of Significant Accounting Policies

A. Reporting Entity and Basis of Presentation

The accompanying special-purpose financial statements present only selected data for each fund of the Department of Agriculture, State Milk Board.

Receipts, disbursements, and changes in cash and investments are presented in Exhibit A for the Milk Inspection Fees Fund. Appropriations from this fund are expended by or for the board for restricted purposes.

Receipts are presented in Exhibit B for the General Revenue Fund-State. Receipts include monies the board collects during its normal activities and remits to the fund. These amounts are not necessarily related to appropriations.

Appropriations, presented in Exhibit C, are not separate accounting entities. They do not record the assets, liabilities, and equities of the related funds but are used only to account for and control the board's expenditures from amounts appropriated by the General Assembly.

Expenditures presented for each appropriation may not reflect the total cost of the related activity. Other direct and indirect costs provided by the board and other state agencies are not allocated to the applicable fund or program.

B. Basis of Accounting

The Statements of Receipts, Disbursements, and Changes in Cash and Investments, Exhibit A, prepared on the cash basis of accounting, presents amounts when they are received or disbursed.

The Statements of Receipts, Exhibit B, also prepared on the cash basis of accounting, presents amounts when received.

The Statements of Appropriations and Expenditures, Exhibit C, is presented on the state's legal budgetary basis of accounting which recognizes expenditures on the encumbrance method. Expenditures include amounts payable or encumbered at June 30 and paid during the lapse period. For the year ended June 30, 1999, the lapse period ended August 31 for regular appropriations and December 31 for capital improvement appropriations. For years ended on or after June 30, 2000, the lapse period ends August 31 for both regular and capital improvement appropriations. The

authority to expend appropriations ends with the close of the lapse period. However, the General Assembly may authorize reappropriation of the unexpended balances of capital improvement appropriations for the following year. The General Assembly also may authorize biennial capital improvement appropriations, for which the unexpended balances at June 30 of the first year of the two-year period are reappropriated for expenditure during the second year.

The cash basis of accounting and the budgetary basis of accounting differ from generally accepted accounting principles, which require revenues to be recognized when they become available and measurable or when they are earned and expenditures or expenses to be recognized when the related liabilities are incurred.

C. Fiscal Authority and Responsibility

The board administers transactions in the funds listed below. The state treasurer as fund custodian and the Office of Administration provide administrative control over fund resources within the authority prescribed by the General Assembly.

Milk Inspection Fees Fund: This fund is authorized by Section 196.947, RSMo 2000, to receive all monies paid to the state for milk inspection. Expenditures, authorized by appropriations, are to be used exclusively for the purpose of defraying the costs of the state milk inspection program, which may include payments to other agencies for services provided related to the program. Any unexpended balances in this fund are perpetually maintained for the purposes of the fund.

General Revenue Fund-State: The board receives appropriations from this fund and does not maintain a proprietary interest in the fund. Appropriations from the fund are used for the basic operation of the board, including those programs and services that have no other funding source. These appropriations also may be used to initially fund, or to provide matching funds or support for, programs paid wholly or partially from other sources.

State Contracted Manufacturing Dairy Plant Inspection and Grading Fee Fund: This fund is authorized by Section 196.614, RSMo 2000, to receive all monies paid to the state by the United States Department of Agriculture for contracted manufacturing dairy plant inspection and grading. Expenditures, authorized by appropriations, are to be used exclusively for the purpose of defraying the costs of the contracted manufacturing dairy plant inspection and grading program. Any unexpended balances in this fund are perpetually maintained for the purposes of the fund. Through fiscal year 2000, no monies have yet been received by or expended from this fund.

D. Employee Fringe Benefits

In addition to the social security system, employees are covered by the Missouri State Employees' Retirement System (MOSERS) (a noncontributory plan) and may participate in the state's health care, optional life insurance, deferred compensation, and cafeteria plans. The optional life insurance and cafeteria plans involve only employee contributions or payroll reductions. Also, the deferred compensation plan involves employee payroll deferrals and a monthly state matching contribution for each participating employee.

The state's required contributions for employee fringe benefits are paid from the same funds as the related payrolls. Those contributions are for MOSERS (retirement, basic life insurance, and long-term disability benefits); social security and medicare taxes; health care premiums; and the deferred compensation plan match.

Employee fringe benefits in the financial statements at A are the transfers from the Milk Inspection Fees Fund for costs related to salaries paid from that fund. Transfers related to salaries are not appropriated by agency and thus are not presented in the financial statement at Exhibit C.

2. Cash and Investments

The balance of the Milk Inspection Fees Fund is pooled with other state funds and invested by the state treasurer.

3. Inspection Contract Costs

During the year ended June 30, 2000, the State Milk Board contracted with the county of St. Louis and the city of Springfield to inspect Grade A milk supplies. This expenditure category represents the cost associated with these contracts paid from the Milk Inspection Fees Fund. During fiscal year 2000, an additional \$198,850 was paid to these agencies from an appropriation from the General Revenue Fund-State.

4. Reconciliation of Total Disbursements to Appropriated Expenditures

Disbursements on Exhibit A reconcile to appropriated expenditures on Exhibit C as follows:

		Milk Inspection Fees Fund	
		Year Ended June 30,	
		2000	1999
DISBURSEMENTS PER EXHIBIT A	\$	1,466,287	1,355,413
Employee fringe benefits		(31,231)	(25,284)
Lapse period expenditures:			
2000		114,301	0
1999		(145,951)	145,951
1998		0	(119,046)
EXPENDITURES PER EXHIBIT C	\$	<u>1,403,406</u>	<u>1,357,034</u>

Note to the Supplementary Data:

5. General Fixed Assets

General fixed assets, which are recorded as expenditures when acquired, are capitalized at cost in the General Fixed Assets Account Group and are not depreciated.

MANAGEMENT ADVISORY REPORT SECTION

Management Advisory Report -
State Auditor's Findings

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
SUMMARY OF FINDINGS

1. Milk Inspection Program (pages 21-23)

Milk inspection fees collected from producers are not sufficient to cover costs of payments to contractors who perform inspections. In addition, the Springfield and St. Louis County Health Departments received payments in excess of the amount allowed by state law.

2. Rating Surveys (page 23-24)

The state Department of Health (DOH), as the designated rating agency for the State Milk Board (SMB), does not perform annual rating surveys as required by state law.

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

We have audited the special-purpose financial statements of the State Milk Board as of and for the year ended June 30, 2000 and 1999, and have issued our report thereon dated February 2, 2001.

The following Management Advisory Report presents our findings arising from our audit of the board's special-purpose financial statements. During our audit, we also identified certain management practices which we believe could be improved. Our audit was not designed to be a detailed study of every system, procedure, and transaction. Accordingly, the findings presented in the following report should not be considered all-inclusive of areas needing improvement.

1.	Milk Inspection Program
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The Milk Inspection Fees Fund (MIF) was established to receive fees collected from milk producers. Section 196.945, RSMo 2000, allows the State Milk Board (SMB) to set fees not exceeding five cents per one hundred pounds of milk produced. The monies collected are used for inspection and compliance monitoring expenses, including payments to local health departments which contract with the SMB to perform these services. During fiscal year 2000, the SMB contracted with the city of Springfield and St. Louis County health departments to provide these services in their specified areas. In fiscal year 2000, approximately \$206,000 was appropriated from the General Revenue Fund-State to help cover payments made to contractors.

Amounts paid to local health department contractors for the past five years are shown below:

<u>Fiscal Year</u>	<u>Payments To Contractors</u>	<u>Number Of Milk Producers</u>
2000	\$ 1,383,892	1,635
1999	1,344,714	1,724
1998	1,562,992	2,017
1997	1,542,905	2,161
1996	1,625,527	2,337

Fiscal year 1996, 1997, and 1998 payments to contractors are for Springfield, St. Louis County, and Kansas City; whereas, fiscal year 1999 and 2000 payments to contractors are for St. Louis County and Springfield only. Effective for fiscal year 1999, the SMB assumed management of the Kansas City area.

- A. It appears the fees collected from producers are not adequate to cover inspection and compliance monitoring costs. During fiscal year 2000 approximately \$198,850 was

paid from the General Revenue Fund-State to help cover payments to health department contractors. For fiscal years 1995 through 1999 payments to health department contractors from the General Revenue Fund-State totaled approximately \$1,169,000. The payments to contractors represent the most significant expenditure outlay for the SMB and are based on the pounds of milk produced in each contractor's area. While the SMB receives annual budget estimates from each of the health department's milk inspection programs, useful actual cost data is not obtained from contractors.

As discussed in the prior report, the SMB's records indicate a significant cost savings resulted from assuming management responsibility of the Kansas City area. Cost savings could possibly be realized by assuming management responsibility of the St. Louis or Springfield area. However, the Executive Secretary indicated the SMB has no plans to assume management for these areas unless the health departments choose not to renew their contracts.

A careful analysis of budget and cost data from the contractors is important to ensure payments to the health department contractors are appropriate and reasonable and would assist in determining whether the SMB could realize a cost savings if management responsibility of the remaining two contract areas was assumed. In addition, a comprehensive review of the fee structure should be performed to determine if a statutory fee increase is necessary to cover costs of inspections and compliance monitoring or if alternatives such as the SMB providing these services itself should be given further consideration.

- B. Based on the SMB's records of milk produced in fiscal year 2000, it appears the Springfield and St. Louis County health department contract agencies were paid approximately \$41,716 and \$23,721, respectively, more than the limit set by statute. Section 196.947, RSMo 2000, limits the total payment to each health department to five cents per one hundred pounds of milk or milk products. The contracts with the health departments state the SMB will pay each agency 4.75 cents per one hundred pounds of instate milk and 3.75 cents per one hundred pounds of imported milk inspected by the agency. Starting in fiscal year 1995, the contracts provided for additional payments to be made from a General Revenue Fund-State appropriation. Contract payments, including the amounts received from the General Revenue Fund-State, totaled \$1,383,892 for the health departments for fiscal year 2000.

Similar conditions were also noted in prior reports back to fiscal year 1995.

WE AGAIN RECOMMEND the SMB:

- A. Develop an estimated cost for the inspection and compliance monitoring program for each contractors area and then compare these costs to MIF revenues for that area. Once this analysis is completed, the SMB should consider any justified changes in management responsibilities of the Springfield or St. Louis areas, or determine whether legislation increasing fees should be pursued to ensure sufficient monies are collected to cover costs of inspection and compliance monitoring.

- B. Ensure payments to the local health departments for the inspection of milk and milk products do not exceed limits established by state law or pursue legislation to amend state law to allow such payments.

AUDITEE'S RESPONSE

- A. *The Board is currently considering establishment of a cost study committee composed partially of individuals from outside the Board membership to lend a non-biased view to the issues at hand. The Board plans to establish this committee within the current fiscal year.*
- B. *The Board views this finding the same as the last audit released some months ago and that is: The State Milk Board respectfully disagrees with the auditor's findings regarding the interpretation of Section 196.947, RSMo 2000. Specifically, the auditor has found that Section 196.947, RSMo 2000, limits the total payment to each health department to five cents per 100 lbs. of milk or milk products. The Milk Board considers that Section 196.947, RSMo 2000, is limited in its application to those funds which are collected and placed in the milk inspection fee fund. The statute does not have any application to those amounts appropriated for contract defrayment from other funds. The Milk Board has never interpreted Section 196.947, RSMo 2000, as restricting the Board from utilizing appropriated funds in order to subsidize the cost of milk inspection. The Milk Board utilizes funds from general revenue when the local jurisdictions have documented that their costs exceeded those which are provided for under the milk inspection fee fund.*

Accordingly the Milk Board does not agree with the auditor's interpretation of Section 196.947, RSMo 2000, and submits that according to its appropriations and contract payments for fiscal year 2000 no overpayments to any of the contract agencies exist.

2. Rating Surveys

Official rating surveys performed by the Department of Health were not conducted as frequently as required by state law. This concern has been discussed in prior reports back to 1985. Section 196.951, RSMo 2000, requires the Department of Health (DOH), as the official rating agency for the SMB, to make an official rating survey at least annually on all Grade A BTU's (Bulk Tank Unit – a group of dairy farms), plants, and receiving and transfer stations. We noted that the rating surveys were conducted on an eighteen to twenty-four month schedule instead of annually as required by state law. These ratings surveys provide evidence to the SMB that there is appropriate and effective enforcement by the contractors of the sanitation standards and other provisions governing the production, handling, and processing of Grade A milk. Because the rating surveys are not conducted in a timely manner, the SMB should reconsider the extent of its reliance on the DOH rating surveys as a measure of its contractors' performance.

WE AGAIN RECOMMEND the SMB, through the DOH, ensure annual rating surveys are conducted as required by state law. In addition, the SMB should find alternative methods for monitoring its contractors' performance, such as linking contractee databases to its own.

AUDITEE'S RESPONSE

The Board cannot address the reason that the Department of Health conducts its state ratings according to U.S Food and Drug mandated scheduling rather than state law, but the Board does recognize the concern of the auditor as to legal compliance. There is not a concern on the Board's part as to possible public health safety being compromised nor that a greater risk is created since these ratings are for information generation as to regulatory's technical compliance to the law. The Board staff reviews the same data and processes on a more frequent basis and takes compliance action in all appropriate instances.

This report is intended for the information of the management of the State Milk Board and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

Follow-Up on Prior Audit Findings

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
FOLLOW-UP ON PRIOR AUDIT FINDINGS

In accordance with *Government Auditing Standards*, this section reports the auditor's follow-up on action taken by the Department of Agriculture, State Milk Board on findings in the Management Advisory Report (MAR) of our prior audit report issued for the two years ended June 30, 1999.

The prior recommendations which have not been implemented, but are considered significant, are repeated in the current MAR. Although the remaining unimplemented recommendations are not repeated, the board should consider implementing those recommendations.

1. Milk Inspection Program

- A. The SMB received annual budget estimates from each of the health departments milk inspection programs; however, actual cost data was not regularly obtained. In addition, it appears the fees collected from producers were no longer adequate to cover inspection costs as appropriations from General Revenue Fund-State were requested in fiscal years 1995, 1996, 1997, 1998, and 1999 to help cover payments to contractors. A comprehensive review of the fee structure was not performed to determine if a statutory fee increase was necessary to cover increased costs of inspection.
- B. Based on the SMB's records of milk produced in fiscal years 1999 and 1998, it appears the Springfield and St. Louis Health Departments were paid approximately \$62,446 and \$7,909, respectively, more than the limit set by statute.

Recommendations:

The SMB:

- A. Develop an estimated cost for the inspection and compliance monitoring program for each contractor's area and then compare these costs to MIF revenues for that area. Once this analysis is completed, the SMB should consider any justified changes in management responsibilities of the Springfield or St. Louis area, or determine whether legislation increasing fees should be pursued to ensure sufficient monies are collected to cover costs of inspection and compliance monitoring.
- B. Ensure payments to the local health departments for the inspection of milk and milk products do not exceed limits established by state law or pursue legislation to amend state law to allow such payments.

Status:

Not implemented. See MAR finding number 1.

2. Revenue Maximization

The SMB required entities to prepare a monthly volume and fee report which details the volume of milk received or shipped and applicable fees. This record was checked for mathematical accuracy; however, the SMB had no formal procedures in place to ensure that the reported volume and applicable fees were correct.

Recommendation:

The SMB develop procedures to ensure that all inspection fee revenues are properly remitted.

Status:

Partially implemented. A current employee of the SMB accepted a newly-created position to develop procedures for performing reviews of volume and fee data to improve the assurance that all inspection fees are properly remitted. Although not repeated in the current MAR, our recommendation remains as stated above.

3. Grade A Compliance Monitoring

The contract between the SMB and the local health departments (contractors) did not require the contractors to submit the actual inspections or other compliance monitoring tests performed by the contractors to the SMB. While the SMB did require the contractors to submit a monthly report, the report lacked detailed information on individual plants, farms, receiving and transfer stations, and haulers.

Recommendation:

The SMB require that all inspection forms and compliance monitoring tests be forwarded to the SMB or, at a minimum, require that the monthly contractors' reports provide sufficient detail by entity so that the SMB can better ensure that each producer, processor, and hauler is being properly monitored and that any violations of the Grade A Pasteurized Milk Ordinance (PMO) or state statute are being properly handled.

Status:

Not implemented. However, the Executive Secretary of the SMB travels to the contract agencies quarterly and reviews various inspection records and compliance monitoring tests. The Executive Secretary now initials all records and tests reviewed. During our review of the Board meeting minutes for fiscal year 2000, we noted that through a review of bulk tank unit inspection records at the Springfield contract agency, the Executive Secretary found that many farms had received three, four, five, and six consecutive marks of specific violations without proper action being taken by the contract agency to suspend the farms. While such quarterly reviews of inspection and sampling records give some assurance of proper monitoring, the SMB would gain increased assurance that each producer, processor, and hauler is being properly monitored and that any violations of the PMO or state statute are being properly handled if all inspection forms and compliance monitoring tests were forwarded to the SMB or the monthly contractors' reports were expanded to provide

sufficient detail by entity. The SMB is continuing to work toward plans to possibly link contractor databases to its own in order to electronically transfer the required detailed documentation. Although not repeated in the current MAR, our recommendation remains as stated above.

4. Manufacturing Grade Compliance Issues

- A. We noted seven of twelve water tests for which the SMB had no record on file.
- B. Our review of the February 2000 delinquent farm inspection report indicated twenty farm inspections which were delinquent and five of the farms were delinquent more than thirteen months. Also, the SMB arranged for manufacturing milk plant fieldmen to perform required manufacturing grade farm inspections; however, the duties of the milk plant fieldmen conflict with the regulatory responsibilities imposed by the SMB.
- C. During our review, we noted three manufacturing grade haulers which were not inspected during the audit period.
- D. The SMB did not establish a program which requires regular pesticide testing of raw manufacturing milk and milk products.

Recommendations:

The SMB:

- A. Ensure that water samples are tested every six months for plants and receiving stations. In additions, water samples should be tested every three years for farms. Finally, the SMB should maintain a record of each water sample tested.
- B. Ensure that manufacturing grade farms are inspected annually. In addition, the SMB should issue stop sell orders on all farms which have not been inspected within a thirteen month period, as established by the SMB. Also, the SMB should continue to seek alternatives to accomplish inspections of manufacturing grade farms with state inspectors rather than milk plant fieldmen.
- C. Require manufacturing grade haulers be inspected at regular intervals.
- D. Establish a manufacturing grade pesticide testing program.

Status:

- A. Implemented.
- B. Partially implemented. During our review of manufacturing grade farm inspections, we noted that the manufacturing grade farms tested were inspected annually or stop sell orders were issued on the farms tested which were not inspected within a thirteen month period. While it appears the duties of the manufacturing milk fieldmen

conflict with the regulatory responsibilities imposed on them by the SMB, this arrangement for accomplishing such inspections is authorized by federal regulations which have been adopted by the state in the statutory provisions and code of state regulations pertaining to the SMB. In addition, the SMB has requested funding several times since this issue was first addressed, but such funding requests have been denied. As a result, this finding will not be repeated.

- C. Implemented. As of December 2000, the SMB had inspected the manufacturing grade haulers.
- D. Not implemented. The SMB has continually requested funding to implement a manufacturing grade pesticide testing program, but these requests have not been granted by the General Assembly. Although not repeated in our current MAR, our recommendation remains as stated above.

5. Rating Surveys

During the audit period, rating surveys were conducted on an eighteen to twenty-four month schedule instead of annually as required by state law. We noted the files pertaining to three of seven plants and two receiving stations did not contain standardized forms for rating an entity during an on-site visit.

Recommendation:

The SMB, through the DOH, ensure annual rating surveys are conducted as required by state law. In addition, all rating surveys should be supported by adequate documentation. Finally, the SMB should find alternative methods for monitoring its contractors' performance.

Status:

Partially implemented. The rating surveys we reviewed appeared to be supported by adequate documentation. See MAR finding number 2.

STATISTICAL SECTION

History, Organization, and
Statistical Information

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The Missouri State Milk Board was created in 1972 when the General Assembly adopted and the Governor signed into law House Bill No. 1280. In accordance with the Omnibus State Reorganization Act of 1974, the State Milk Board was transferred to the Department of Agriculture under a Type III transfer. Under a Type III transfer, the Director of the Department of Agriculture does not maintain supervision over substantive matters relating to policies and regulative functions of the State Milk Board.

Pursuant to Executive Order No. 82-9, effective August 13, 1982, “. . . All powers, duties, and functions vested in the Division of Animal Health and the Director of the Department of Agriculture with respect to administering and enforcing the provisions of Sections 196.520 through 196.610, RSMo Supp. 1996, (relating to The Missouri Manufacturing Milk and Dairy Market Testing Law) . . .” were transferred to the State Milk Board.

The State Milk Board consists of twelve members, ten of whom are appointed by the governor. The two remaining members of the board are the director of the Department of Health and the director of the Department of Agriculture or their designated representatives. An executive secretary serves as the administrative officer of the board, which administers the inspection of milk supplies.

The Fluid Milk Inspection Program is funded from milk inspection fees. In fiscal year 2000, the General Assembly appropriated \$220,693 from the General Revenue Fund-State to help cover inspection costs. Section 196.945, RSMo 1994, limits milk inspection fees to five cents per one hundred pounds of fluid milk. The inspection fee is set by the board after holding a public hearing giving thirty days public notice. The inspection fee for the fiscal year ended June 30, 2000 was five cents per one hundred pounds of milk produced in Missouri and four cents per one hundred pounds for milk produced in other states and imported into Missouri. Imported milk is charged a lesser rate because the originating state inspects its producers.

During the year ending June 30, 2000, the State Milk Board contracted with the county of St. Louis and the city of Springfield to perform the actual inspections. The State Milk Board has management responsibility for the Kansas City area. The board's enforcement of statutes and regulations ensures that fluid milk and milk products are uniformly inspected, regulated, and graded throughout the state. The board's operation of the Fluid Milk Inspection Program is funded by the difference between the inspection fee collected and the contract payments to the other governmental units.

The Manufacturing Milk and Dairy Market Testing Law Program is funded by appropriations from the state's General Revenue Fund. The State Milk Board is responsible for the enforcement of laws relating to the sanitation and quality standards of milk used for manufacturing dairy products and to market test all milk at first point of sale. Milk producers, manufacturing plants, field superintendents, testers, graders, samples, and milk truck operators are also licensed under this program.

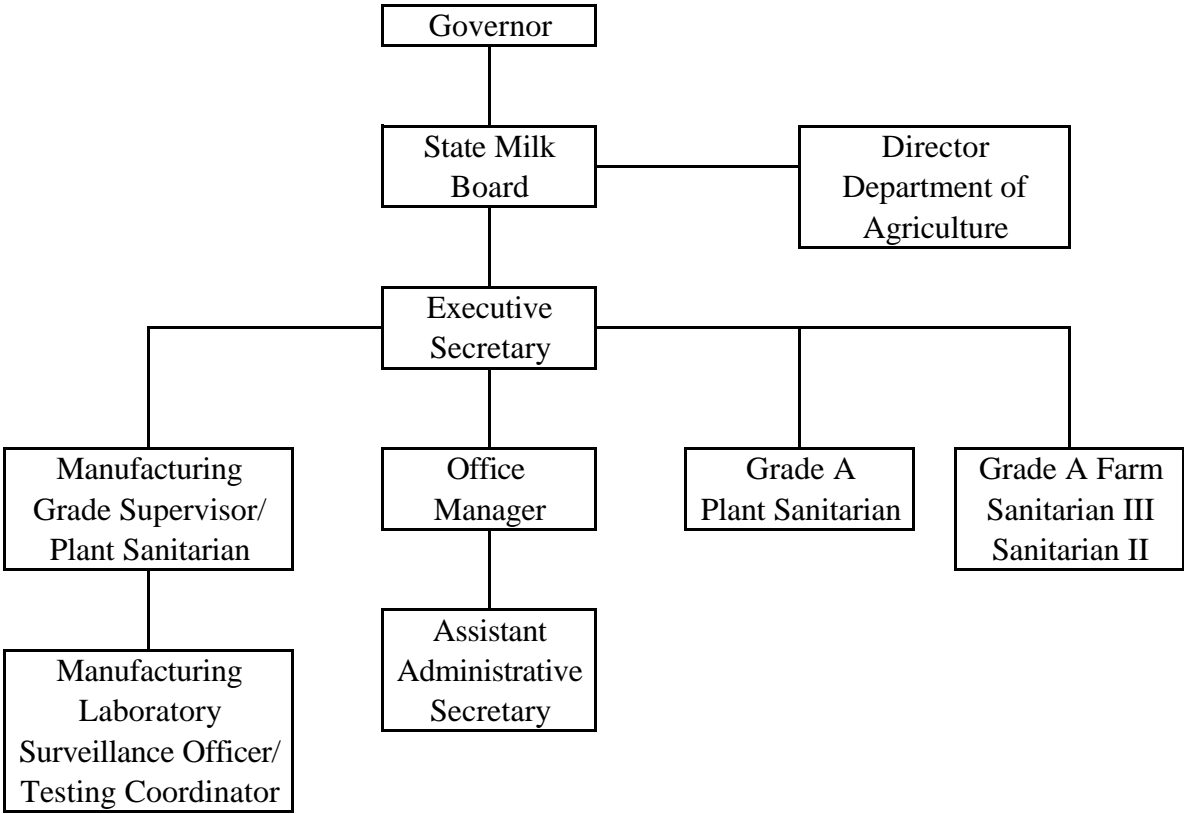
At June 30, 2000, State Milk Board members were as follows:

<u>Name</u>	<u>Organization</u>	<u>Term Expires</u>
Kate Geppert	Holstein Association	September 28, 2002
Ron Boyer	Springfield/Greene County Health Department	September 28, 2003
Robert W. Cary	Prairie Farms Dairy	September 28, 2002
Christina L. Quick	Kansas City Health Department	September 28, 2001
Barry Drucker	St. Louis County Health Department	September 28, 2001
Lester Evans	Farm Organization - MFA	September 28, 1999 *
Jean Grabeel	Consumers-at-Large	September 28, 2000
Gale Hackman	Processing Plants	September 28, 2000
Dr. Chuck Massengill, DVM	Department of Agriculture	Ex Officio
Roger Gibson	Missouri Department of Health	Ex Officio
William B. Sieberborn	Milk Producer Organization - Farm Bureau	September 28, 2001
Patricia M. Mahoney	St. Louis County Health Department	September 28, 2002

* Continues to serve until a replacement is appointed.

Mr. Terry Long serves as the Executive Secretary of the board. In addition to Mr. Long, the State Milk Board has seven employees. An organization chart follows.

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
ORGANIZATION CHART
JUNE 30, 2000



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